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Dairy and Products

Annual

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Report Highlights:

Australian production of fluid milk for 2008/09 is forecast to increase by approximately two percent to 9,700 TMT. Improved seasonal conditions and fodder and grain supplies are likely to allow the Australian dairy herd to expand by four percent. Despite recent improvements, irrigation water allocations are expected to remain at historically low levels and this is expected to constrain larger increases in production. Post has increased its forecast for production of cheese, butter and milk powders in line with forecast increases in fluid milk production. Exports of these commodities are also expected to increase.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Canberra [AS1]
[AS]

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SECTION ONE: SITUATION AND OUTLOOK**Summary**

Seasonal conditions experienced in the first quarter of 2008/09 represent a marked improvement over those experienced in the same period for the previous year. Widespread rain through south eastern Australia has seen the production conditions for dairy improve markedly. At the time of writing this report, pasture conditions for key dairy areas range from average to above average and post anticipates good conditions for fodder production over the up coming summer.

Winter cereal crop production is forecast to improve markedly compared to last year with wheat production forecast to reach its highest level in three years and follows a record sorghum harvest. Cotton and oilseed production is also forecast to improve significantly likely causing an increase in production of vital byproducts for use in feed rations.

Post expects the Australian dairy herd to expand somewhat during 2008/09 although this expansion will be constrained by the availability of suitable livestock, following years of drought and herd reduction. Prices paid for dairy cows have recently reached record levels according to rural media reports and this is seen as evidence that the industry is expanding.

Post advises that any increase in production will be incremental and sees a sharp increase in production as highly unlikely. Continued low levels of irrigation water allocations and other residual effects of severe and long running drought will likely require a number of years before production will reach levels experienced prior to the drought which began in CY 2002.

A recent ABARE report stated that dairy returns are likely to improve over 2008/09. However, commodity prices have since fallen sharply due to the current economic uncertainty being experienced around the world. Post advises that the value of the Australian dollar has declined sharply also, and this has largely insulated Australia from the fall in commodity prices. Similar falls in fuel and fertilizer prices (farm gate) would also improve farm returns, although this remains to be seen.

SECTION TWO: STATISTICAL TABLES

PSD Table Dairy, Milk, Fluid										
	2007	Revised		2008	Estimate		2009	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008	MM/YY YY
Cows In Milk	1800	1800	1800	1710	1710	1730			1800	(1000 HEAD)
Cows Milk Production	9870	9870	9870	9377	9377	9500			9700	(1000 MT)
Other Milk Production	0	0		0	0					(1000 MT)
Total Production	9870	9870	9870	9377	9377	9500			9700	(1000 MT)
Other Imports	2	2	2	5	5	6			7	(1000 MT)
Total Imports	2	2	2	5	5	6			7	(1000 MT)
Total Supply	9872	9872	9872	9382	9382	9506			9707	(1000 MT)
Other Exports	82	82	82	72	72	69			68	(1000 MT)
Total Exports	82	82	82	72	72	69			68	(1000 MT)
Fluid Use Dom. Consum.	2162	2162	2162	2227	2227	2205			2220	(1000 MT)
Factory Use Consum.	7628	7628	7628	7083	7083	7232			7419	(1000 MT)
Feed Use Dom. Consum.	0	0		0	0					(1000 MT)
Total Dom. Consumption	9790	9790	9790	9310	9310	9437			9639	(1000 MT)
Total Distribution	9872	9872	9872	9382	9382	9506			9707	(1000 MT)
CY Imp. from U.S.	0	0		0	0					(1000 MT)
CY. Exp. to U.S.	0	0		0	0					(1000 MT)

PSD Table Dairy, Cheese

	2007	Revised		2008	Estimate		2009	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008	MM/YYYY
Beginning Stocks	21	21	21	18	18	18			15	(1000 MT)
Production	360	360	360	350	350	344			350	(1000 MT)
Other Imports	64	64	64	68	68	70			70	(1000 MT)
Total Imports	64	64	64	68	68	70			70	(1000 MT)
Total Supply	445	445	445	436	436	432			435	(1000 MT)
Other Exports	212	212	212	214	214	202			206	(1000 MT)
Total Exports	212	212	212	214	214	202			206	(1000 MT)
Human Dom. Consumption	215	215	215	215	215	215			215	(1000 MT)
Other Use, Losses	0	0		0	0					(1000 MT)
Total Dom. Consumption	215	215	215	215	215	215			215	(1000 MT)
Total Use	427	427	427	429	429	417			421	(1000 MT)
Ending Stocks	18	18	18	7	7	15			14	(1000 MT)
Total Distribution	445	445	445	436	436	432			435	(1000 MT)
CY Imp. from U.S.	0	0	0	4	4	7			5	(1000 MT)
CY. Exp. to U.S.	11	11	14	11	11	9			14	(1000 MT)

PSD Table Dairy, Butter

	2007	Revised		2008	Estimate		2009	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008	MM/YYYY
Beginning Stocks	9	9	9	4	4	4			14	(1000 MT)
Production	117	117	117	105	105	111			113	(1000 MT)
Other Imports	13	13	13	22	22	20			16	(1000 MT)
Total Imports	13	13	13	22	22	20			16	(1000 MT)
Total Supply	139	139	139	131	131	135			143	(1000 MT)
Other Exports	80	80	80	60	60	59			61	(1000 MT)
Total Exports	80	80	80	60	60	59			61	(1000 MT)
Domestic Consumption	55	55	55	62	62	62			68	(1000 MT)
Total Use	135	135	135	122	122	121			129	(1000 MT)
Ending Stocks	4	4	4	9	9	14			14	(1000 MT)
Total Distribution	139	139	139	131	131	135			143	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	2			1	(1000 MT)
CY Exp. to U.S.	2	2	5	2	2	3			2	(1000 MT)

PSD Table

Dairy, Dry Whole Milk Powder

	2007	Revised		2008	Estimate		2009	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008	MM/YYYY
Beginning Stocks	34	34	34	23	23	23			21	(1000 MT)
Production	135	135	135	125	125	125			128	(1000 MT)
Other Imports	11	11	11	12	12	13			14	(1000 MT)
Total Imports	11	11	11	12	12	13			14	(1000 MT)
Total Supply	180	180	180	160	160	161			163	(1000 MT)
Other Exports	130	130	130	110	110	111			113	(1000 MT)
Total Exports	130	130	130	110	110	111			113	(1000 MT)
Human Dom. Consumption	27	27	27	28	28	29			30	(1000 MT)
Other Use, Losses	0	0		0	0					(1000 MT)
Total Dom. Consumption	27	27	27	28	28	29			30	(1000 MT)
Total Use	157	157	157	138	138	140			143	(1000 MT)
Ending Stocks	23	23	23	22	22	21			20	(1000 MT)
Total Distribution	180	180	180	160	160	161			163	(1000 MT)
CY Imp. from U.S.	1	1	1	1	1	1			1	(1000 MT)
CY. Exp. to U.S.	1	1	5	1	1	3			1	(1000 MT)

PSD Table

Dairy, Milk, Nonfat Dry

	2007	Revised		2008	Estimate		2009	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008	MM/YYYY
Beginning Stocks	38	38	38	31	31	30			45	(1000 MT)
Production	205	205	205	172	172	177			181	(1000 MT)
Other Imports	3	3	4	3	3	3			3	(1000 MT)
Total Imports	3	3	4	3	3	3			3	(1000 MT)
Total Supply	246	246	247	206	206	210			229	(1000 MT)
Other Exports	175	175	175	120	120	120			123	(1000 MT)
Total Exports	175	175	175	120	120	120			123	(1000 MT)
Human Dom. Consumption	40	40	42	42	42	45			49	(1000 MT)
Other Use, Losses	0	0		0	0					(1000 MT)
Total Dom. Consumption	40	40	42	42	42	45			49	(1000 MT)
Total Use	215	215	217	162	162	165			172	(1000 MT)
Ending Stocks	31	31	30	44	44	45			57	(1000 MT)
Total Distribution	246	246	247	206	206	210			229	(1000 MT)
CY Imp. from U.S.	0	0		0	0	0				(1000 MT)
CY. Exp. to U.S.	0	0		0	0	0				(1000 MT)

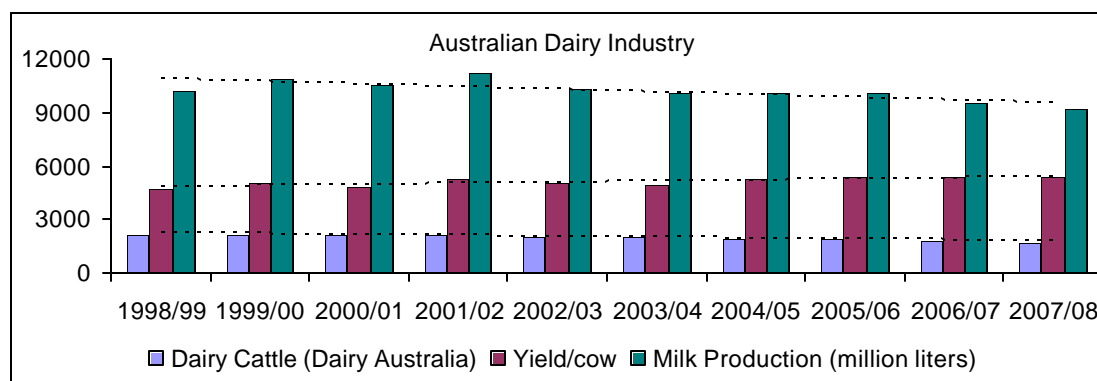
SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

Fluid Milk Production

Fluid milk production for 2008/09 is forecast at 9,700 TMT, or around 9.42 billion liters using a conversion factor of 1.03. This forecast increase in production represents a two percent increase over the previous year. Despite this forecast increase however, production of this level, if achieved, would remain well below the levels prior to the commencement of the drought in 2002/03. The record for Australian dairy production remains at 11,600 TMT (11.27 billion liters) achieved in 2001/02.

A forecast four percent increase in cow numbers for 2008/09 is the primary driver for increased fluid milk production in 2008/09. Reports suggest prices paid for dairy cows have reached record or near-record levels and post sees this as evidence the industry is beginning to expand following years of drought and high feed prices.

Post has allowed for a small decline in yield per cow for 2008/09 due to the influx of younger cows. Post advises that above average seasonal conditions, if experienced, could see yield per cow improve somewhat.



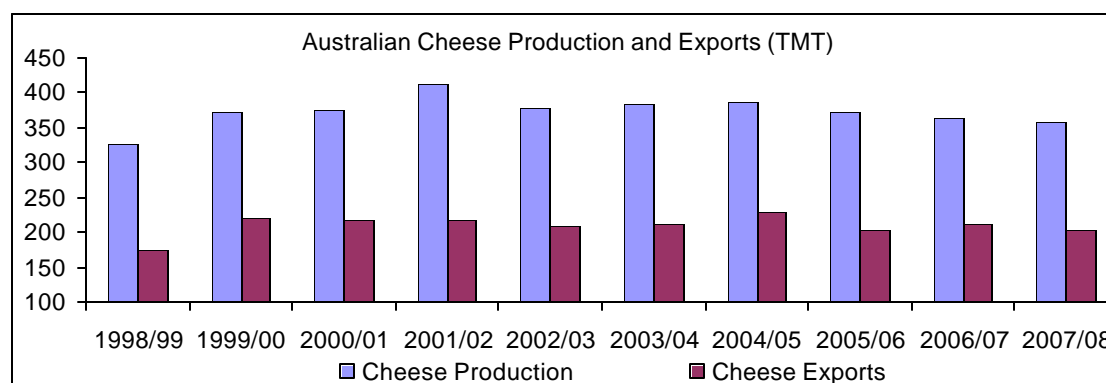
Source: ABARE Data

Going forward, irrigation water supplies are likely to remain at historically low levels in most parts of the nation, despite recent increases in allocations. Recent travel throughout the Snowy Mountains, one of the most important irrigation water catchments in south eastern Australia, revealed a long term and fundamental decline in irrigation water reserves. Some sources believe that it may take more than a decade for these storages to fully recharge following the longest running and most severe drought in Australia's recorded history.

In making these forecasts, post has assumed average seasonal conditions for the remainder of 2008/09. Above average rainfall would likely see yield per cow improve beyond posts expectations, while below average rainfall would likely constrain an increase in cow numbers.

Cheese

Cheese production for 2008/09 is forecast to increase around two percent to 350 TMT. This level of production would be considered to be slightly below average according to ABARE's historic data.



Source: ABARE Data

The forecast increase in cheese production is largely in line with the forecast increase in fluid milk production. Post has assumed no change in butterfat production and has assumed average seasonal weather conditions.

Exports of cheese for 2008/09 are forecast at 206 TMT. This forecast represents an increase of around two percent which is largely in line with forecast increases in production. Post acknowledges the recent sharp fall in world dairy prices but also advises that these have been largely offset by a sharp decline in the value of the Australian dollar.

Total cheese imports are forecast to remain at historically high levels at 70 TMT, unchanged from the estimate for the previous year. Imports of cheese from the United States are forecast to decline somewhat due to the devaluation of the Australian dollar and increased in domestic production. Inquiry by post has revealed that the majority of US imports are used as "shredding cheese" in the food service sector.

Imports of cheese from the United States are a recent development for Australia. According to World Trade Atlas (WTA) data, Australia imported 6,718 MT of cheese from the US in 2007/08, up from just 51 MT in the previous year, making the US Australia's second largest supplier of imported cheese. Despite this rapid increase, monthly data shows imports beginning to decline, and post believes that recent currency fluctuations and increased domestic production will likely constrain imports from the US to lower levels in 2008/09.

Butter

Total butter production for 2008/09 is forecast at 113 TMT, up around two percent on production for the previous year. Forecast increased supplies of fluid milk are likely to push production higher.

Monthly industry data shows butter production has strengthened in recent times and post believes this may signal an end to the long term decline of butter production vis-à-vis cheese production. Post has included butter oil as butter and advises that demand for this oil has been strengthened by demand for oils more general over the past few years.

Butter exports are forecast to also increase around two percent to 61 TMT, in line with increased production.

Whole Milk Powder

Production of whole milk powder for 2008/09 is forecast to increase to 128 TMT, up from the 125 TMT estimated for the previous year. Exports of whole milk powder are forecast at 113 TMT, up in line with production.

Skim Milk Powder

Production of Skim Milk Powder is forecast to increase to 181 TMT, in line with the forecast increase in fluid milk production. Exports are also forecast to increase to 123 TMT.

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at:
<http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

Report Number	Title of Report	Date
AS8047	Sugar Semi-Annual	09/26/08
AS8046	Exporter Guide	09/15/08
AS8044	FAIRS Export Certificate Report	09/04/08
AS8043	2008 September Voluntary Grain Report	08/28/08
AS8041	Cotton Quarterly Lock-up	08/27/08
AS8040	Competitiveness of Grocery Pricing in Australia Investigated	08/20/08
AS8039	2008 Livestock Annual	08/22/08
AS8038	FAIRS Country Report	07/31/08
AS8037	The Australian Emissions Trading Scheme NFF Policy	07/22/08
AS8036	Draft Organic Standard Released for Comment	07/22/08
AS8035	Biotechnology Annual	07/15/08
AS8033	Grain and Feed Quarterly Update	07/08/08
AS8032	Wheat Reform Legislation Passes in Parliament	06/25/08
AS8030	Grain and Feed Situation Update	06/13/08
AS8029	Response to the "Safeguards Inquiry Into The Imports of Pigmeat"	06/06/08
AS8028	New Wheat Marketing Legislation Progresses Through Parliament	06/05/08
AS8027	Biofuels Annual	06/04/08
AS8026	Aust Govt Expresses Disappointment Over Farm Bill	05/27/08
AS8024	US Farm Bill: Lost Opportunity – Minister for Trade	05/19/08
AS8023	Dairy Semi-Annual	05/19/08
AS8022	ABARE Report indicates GM crops will provide economic benefits to Australian regions	05/15/08
AS8020	Cotton Annual	05/01/08